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SUPERPACK CORPORATION LIMITED / 1963 ANNUAL REPORT





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SUPERPACK CORPORATION LIMITED



Head Office

254 Bartley Drive
Toronto 16, Ontario, Canada

Branch Offices

Montreal, *Canada*
Los Angeles, *California*
St. Louis, *Missouri*
Elizabeth, *New Jersey*
London, *England*
Nassau, *Bahamas*

Directors

T. D. Richmond
N. White
C. P. Brina
I. Gould
H. W. Marache Jr.
G. Brina
H. Vinnet

Officers

I. Gould, *Chairman of the Board*
T. D. Richmond, *President*
C. P. Brina, *Vice-President*
N. White, *Secretary-Treasurer*
M. Simbrow, *Assistant Secretary-Treasurer*

Registrar and Transfer Agent

Guaranty Trust Company of Canada

Auditors

Perlmutter, Orenstein, Giddens,
Newman & Kofman

LETTER FROM THE PRESIDENT

The year ended November 30, 1963 was devoted to new growth and the solidification of previous expansions through investment in equipment, inventories and collateral services.

In recognition of our diversified activities, our corporate name was changed in mid-year from Superpack Vending Limited to Superpack Corporation Limited. We are pleased to report that all divisions of the company increased their sales volume, with total sales rising almost 21% to \$8,536,326 from \$7,060,064 in the previous fiscal year.

As you will note from a glance at the consolidated balance sheet further in this report, our current and fixed assets have increased in virtually every category. For the most part, this reflects the necessary follow-up of expansion probes with equipment, fixtures and inventories to entrench our position in these new geographic and marketing areas.

Our packaging plants in St. Louis, Mo., Elizabeth, N.J. and Los Angeles, Calif., are now fully equipped to further penetrate the American coin laundry market in which we have already achieved a resounding success.

This market is now being completely serviced by our own fleet of trucks and tractor trailers, purchased during the past year after comprehensive studies which indicated greater economies could be achieved while improving service. Our experience to date has proven the validity of these studies.

Expansion in Canada was highlighted by construction of a modern 55,000 square-foot plant in Toronto for Gold Crest Products Company. This plant is now in production of quality wood furniture for the North American market.

In the United Kingdom we have established many small warehousing depots to carry the substantial inventories of vending equipment and products necessary to support our sales activity. Our plants and warehouse facilities in North America and the United Kingdom now occupy approximately 230,000 square feet of space.

While this increased overhead has necessarily penalized net earnings for the 1963 fiscal year, it has also established economies and an improved sales potential which will likely bear fruit in the current year.

Your company is now one of the world's largest suppliers to the coin laundry market, with vending equipment installed in more than 25,000 laundries on both sides of the Atlantic. Furthermore, management is nearing completion of a new marketing arrangement which will increase profits from this part of our operations without additional cost.

A significant breakthrough in the application of our patented Cylindramatic vending concept to other fields was achieved during the year with its acceptance by Reader's Digest of Canada. This acceptance is the result of many months of exhaustive market testing, and will soon culminate in the installation of our vending units carrying Reader's Digest magazines across the nation.

Toronto, Canada, March 10, 1964

The door is now open to international acceptance of our equipment by this great publishing organization. A marketing test similar to that completed in Canada is currently underway in the United States, and we are producing prototype equipment for several other countries to overcome the difference in coinage used.

Another new but related venture is being undertaken this year with the establishment of another subsidiary, Superpack Foods Limited. This subsidiary manufactures and distributes vending equipment, and distributes packaged instant food of many varieties to offices, clubrooms and other public and semi-public locations.

We are proceeding cautiously with this new subsidiary, to avoid the many pitfalls inherent in automatic food vending, but early customer reaction has been so favorable that this area of activity could become a significant source of revenue in the years ahead.

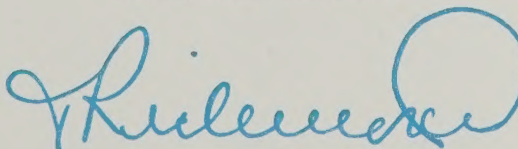
The total operations of your company are now so diversified that a separate portion of this report has been allocated to summarizing them.

Many of these operations have already proven themselves in sales and profits. Others are now on the verge of converting vast potential into tangible returns.

At the time of the preparation of your companies consolidated financial statements in February 1964, Nortex of Canada Limited, the subsidiary in the United Kingdom, had not yet completed a full fiscal year and accordingly, no financial information was available for inclusion in those statements. Since that date, financial information has been prepared indicating that the soap operation in the United Kingdom incurred a loss of approximately \$11,400 up to November 30, 1963. The investment in the United Kingdom with respect to furniture operations, which have now been terminated, and the costs of establishing the soap operation in the United Kingdom totalled approximately \$50,200. Indications are that sales volume has now passed the break even level with monthly increases continuing.

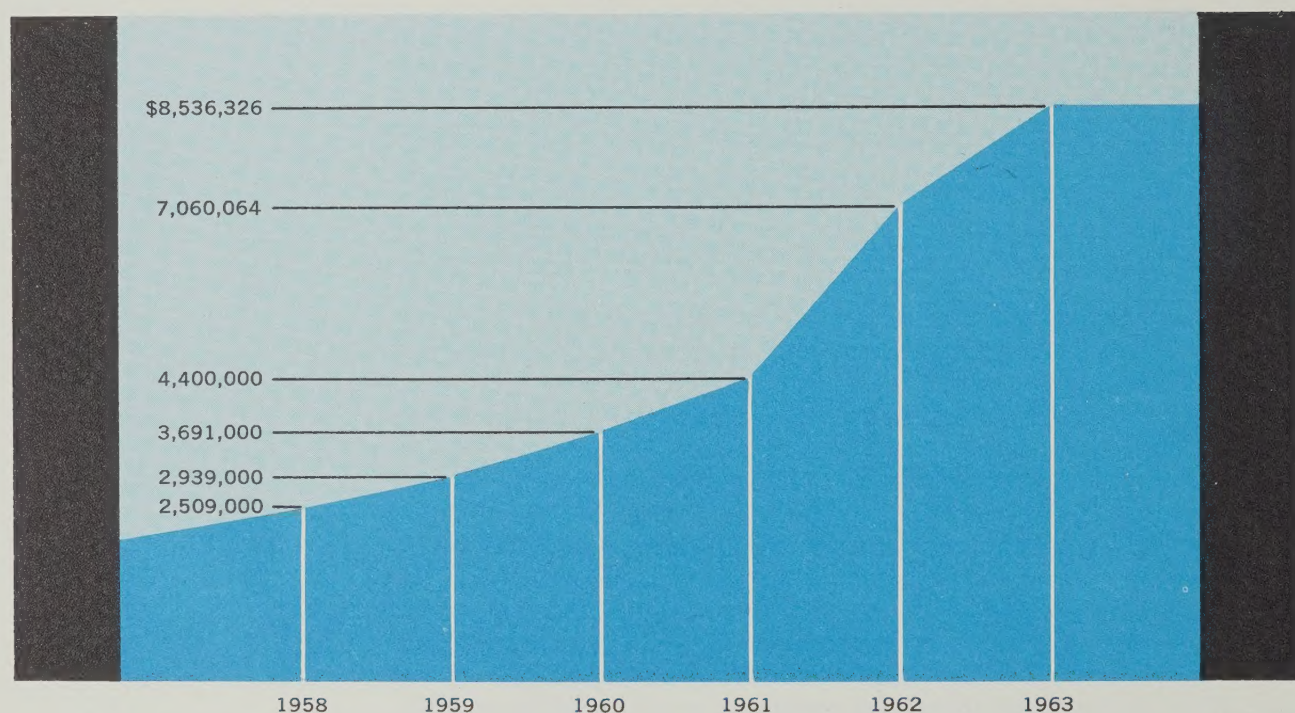
Your management will continue to seek even further diversification into other areas where this desirable pattern is indicated, as well as consolidation of existing activities, to the benefit of our shareholders, our staff and our customers.

For The Board of Directors

A handwritten signature in blue ink, appearing to read 'T. Richmond', with a large circular flourish at the end.

Theodore D. Richmond, President

NET SALES



COMBINED FINANCIAL SUMMARY IN CANADIAN FUNDS

Year end Nov. 30	1963	1962	1961	1960	1959	1958
Net Sales	\$8,536,326	\$7,060,064	\$4,400,000	\$3,691,000	\$2,939,000	\$2,509,000
Gross earnings	794,570	826,463	391,619	220,527	135,103	68,100
Depreciation and amortization	354,005	128,605	59,652	57,326	62,471	27,119
Interest	175,815	100,956	8,063	13,678	7,544	1,528
Income taxes	(35,432)	195,181	147,462	51,141	14,088	21,391
Net after taxes	300,182	401,721	176,442	98,382	51,000	18,062
Earnings per share*	0.60	0.80	0.35	0.19	0.10	0.03
Cash provided by operations	1.31	1.06	.47	.31	.23	.09

*Based on 501,005 shares presently outstanding

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
FOR THE YEAR ENDED NOVEMBER 30, 1963

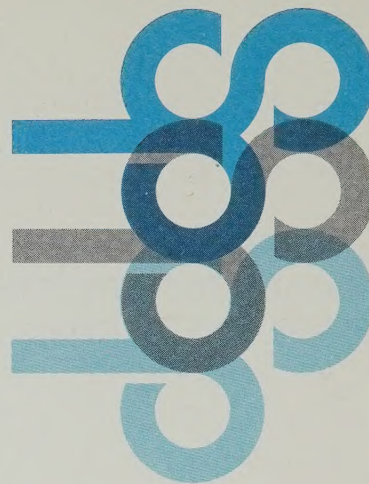
Statement

EARNINGS	1963	1962
Sales (including other revenue)	<u>\$8,536,326</u>	<u>\$7,060,064</u>
Earnings before provision for undernoted items	\$ 794,570	\$ 826,463
Depreciation and amortization of fixed assets	306,526	128,605
Amortization of intangible assets	47,479	
Interest on long term debt	175,815	100,956
Corporation taxes—Note 6	<u>(35,432)</u>	<u>195,181</u>
Net earnings	<u>\$ 300,182</u>	<u>\$ 401,721</u>

RETAINED EARNINGS	1963
Balance—December 1, 1962	\$ 407,219
Add – Net earnings	<u>300,182</u>
	707,401
Less – Amortization of organization and issue expenses	9,388
Prior year tax and sundry adjustments	<u>3,655</u>
	<u>13,043</u>
Balance—November 30, 1963	<u>\$ 694,358</u>

The notes to the consolidated financial statements are an integral part of and should be read in conjunction with the consolidated statements of earnings and retained earnings.

Balance Sheet



ASSETS	1963	1962
Current assets		
Cash	\$ 5,669	\$ 61,604
Accounts receivable (less allowance for doubtful accounts)	1,581,534	1,364,446
Inventories—at lower of cost or market	1,195,111	874,774
Loans and notes receivable—current portion	58,088	37,085
Corporation taxes refundable	24,393	—
Prepaid expenses	131,109	84,234
Deposits and sundry assets	43,162	27,773
	<u>3,039,066</u>	<u>2,449,916</u>
Fixed Assets— <i>Note 1</i>		
Vending units	1,451,724	607,258
Machinery, equipment, furniture and fixtures	1,239,630	1,011,025
Tools and dies	281,522	237,201
Vehicles	260,230	110,427
Leasehold improvements	129,126	97,833
	<u>3,362,232</u>	<u>2,063,744</u>
Less—accumulated depreciation and amortization	<u>701,457</u>	<u>397,655</u>
	<u>2,660,775</u>	<u>1,666,089</u>
Investments		
Investments in and advances to subsidiaries—at cost— <i>Note 1</i>	209,725	54,338
Mortgage and notes receivable—deferred portion	80,949	12,500
Sundry investments—at cost	16,535	12,035
	<u>307,209</u>	<u>78,873</u>
Patent rights, licencing agreements, deferred development and establishment costs (less amortization)— <i>Note 2</i>	<u>1,231,533</u>	<u>1,227,380</u>
Excess of cost of shares of subsidiaries over book value of net tangible assets— <i>Note 1</i>	<u>1,024,246</u>	<u>1,015,520</u>
Cost of organization and issue of capital stock and debentures (less amortization)	<u>111,260</u>	<u>129,078</u>
	<u>\$8,374,089</u>	<u>\$6,566,856</u>

Approved on behalf of the Board: T. D. RICHMOND, *Director*
I. GOULD, *Director*

Toronto, Canada, February 10, 1964

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET AS AT NOVEMBER 30, 1963

LIABILITIES	1963	1962
Current liabilities		
Bank indebtedness (secured)	\$ 537,172	\$ 443,349
Finance company advances (secured)	359,320	-
Accounts payable and accrued liabilities	1,448,495	1,228,904
Provision for corporation taxes	152,349	211,888
Payroll deductions and sales taxes	77,098	64,891
	<u>2,574,434</u>	<u>1,949,032</u>
Long-term liabilities— <i>Note 3</i>		
Debentures payable— <i>Note 4</i>	2,522,000	2,600,000
Loans and notes payable (secured)	1,080,382	134,600
	<u>3,602,382</u>	<u>2,734,600</u>
	6,176,816	4,683,632
Deferred rental income	26,910	-
SHAREHOLDERS' EQUITY		
Capital stock— <i>Note 5</i>		
Authorized—1,000,000 shares without par value		
Issued and fully paid—501,005 shares	1,476,005	1,476,005
Retained earnings	<u>694,358</u>	<u>407,219</u>
	<u>\$8,374,089</u>	<u>\$6,566,856</u>

The notes to the consolidated financial statements are an integral part of and should be read in conjunction with the consolidated balance sheet.

The consolidated balance sheet should be read in conjunction with the auditor's report of even date.

NOTES TO THE FINANCIAL STATEMENTS

November 30, 1963

1. Principles of Consolidation:

The consolidated financial statements include the accounts of all subsidiaries except two which were either inactive or had not completed a full operating year as at November 30, 1963. The investment in and advances to these subsidiaries are recorded on the balance sheet at cost.

Transactions in U.S. funds are recorded in Canadian funds at the rate of exchange prevailing at the date of the transaction. Any balances in U.S. funds at balance sheet date are restated in Canadian funds at the rate of exchange prevailing at that date.

Pursuant to an appraisal dated March, 1962 by Cooper Appraisals Limited of the fixed assets of Nortex Products Company, a division of the Company, \$335,547 of the excess of the cost of the shares of the subsidiaries from whom these assets were purchased over the underlying book value of the net tangible assets has been included as fixed assets. The balance of the excess of the cost of the shares of these subsidiaries and the excess of the cost of the shares of other subsidiaries over the underlying book value of their net tangible assets are recorded as "Excess of cost of shares of subsidiaries over book value of net tangible assets."

2. Patent rights, licensing agreements, deferred development and establishment costs are amortized on various bases, \$39,954 having been written off during the year.
3. The principal payments on the long-term debt which fall due within one year of balance sheet date amount to approximately \$480,000 including the \$78,000 for the debenture sinking fund referred to in Note 4 and including \$225,000 due on the loan from a company of which a director of the Company is a director.
4. The debentures mature on March 31, 1972 and are subject to the provisions of a trust indenture dated March 31, 1962 which provides, among other things that, the debentures are:
 - a) Secured by a first floating charge on the assets of the Company and its subsidiaries.
 - b) Redeemable under certain conditions from time to time at a premium varying from 5% to nil.
 - c) Convertible under certain conditions at the holder's option from time to time at bases varying from one share per each \$12.50 principal amount to one share per each \$22.50 principal amount. There are 201,760 common shares without par value, reserved for these conversions.
 - d) To be partially retired out of the proceeds of a sinking fund to which the Company covenants to contribute \$78,000 per year.
5. Of the authorized and unissued common shares, 201,760 are reserved for possible conversion of the debentures (see Note 4) and 25,000 are reserved under an employee's stock option plan.

Pursuant to this plan, options at \$9.50 per share on 25,000 shares were granted, which options can be exercised within three years from September 21, 1964 subject to certain conditions and restrictions.
6. Corporation taxes recoverable by two subsidiaries due to the carry-back of losses incurred in the current year exceeded the corporation taxes payable by other subsidiaries. The Company has not provided for any corporation taxes on its income due to the application of losses carried forward from prior years.
7. The Company and certain of its subsidiaries, as the lessees of leasehold properties have contractual obligations for annual rental payments of approximately \$150,600 under these leases which have varying terms up to 1978.
8. Intercompany transactions have been eliminated with the exception of sales of vending machines manufactured by the Company and carried by a subsidiary as fixed assets at manufactured cost.
9. The Company has claimed depreciation on certain of its assets in excess of the capital cost allowance claimed for tax purposes. This is as a result of the subsidiary, from whom these assets were acquired during the year, having claimed capital cost allowance in excess of the depreciation recorded in the accounts in the previous year. There is now an amount of approximately \$46,625 in reduction of income taxes in prior years applicable to future years when the depreciation recorded in the accounts will exceed the capital cost allowance to be claimed for tax purposes.
10. Salaries paid to eleven executive officers aggregated \$168,340 during the year. No directors' fees as such were paid.
11. On December 1, 1962, the Company acquired all of the assets subject to the liabilities of nine of the subsidiaries at net book value. These subsidiaries amalgamated subsequently on February 6, 1963.
12. On March 14, 1963, the shareholders of the Company approved a change in the name of the Company from Superpack Vending Limited to Superpack Corporation Limited.

AUDITORS' REPORT

February 10, 1964

To the Shareholders, Superpack Corporation Limited, Toronto, Canada.

Gentlemen:

We have examined the accompanying consolidated balance sheet of Superpack Corporation Limited and subsidiary companies as at November 30, 1963 and the related consolidated statement of earnings and retained earnings for the year ended on that date. Our examination of Superpack Corporation Limited and one of its subsidiary companies included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

With respect to the financial statements of six of the subsidiaries, we relied upon the reports of other auditors and our opinion in respect to those companies is based on their reports.

In our opinion, the accompanying consolidated balance sheet, consolidated statements of earnings and retained earnings and notes to consolidated financial statements present fairly the financial position of the Company and subsidiary companies as at November 30, 1963 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

PERLMUTTER, ORENSTEIN, GLIDDENS, NEWMAN & KOFMAN
Chartered Accountants

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES
SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED
NOVEMBER 30, 1963

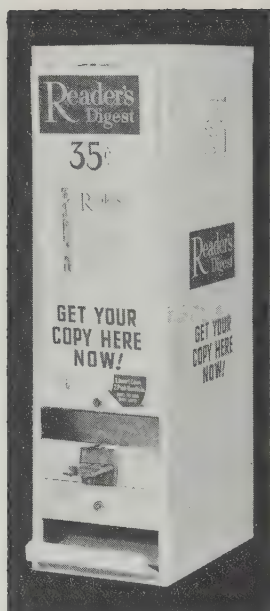
Funds

SOURCE OF FUNDS

Operations		
Net earnings	300,182	
Depreciation and amortization	354,005	654,187
Increase in long-term debt		
Shareholder and associates	697,242	
Other	284,040	981,282
Deferred rental income		26,910
Total funds provided		<u>\$1,662,379</u>

APPLICATION OF FUNDS

Purchase of fixed assets (net)		
Vending units	844,466	
Machinery, equipment, furniture & fixtures	228,605	
Vehicles	149,803	
Tools and dies	44,321	
Leasehold improvements	31,293	1,298,488
Investments and advances		
Subsidiaries	155,387	
Other	72,949	228,336
Reduction of long-term debt		
Debentures	75,953	
Loans	35,500	111,453
Miscellaneous applications		60,354
Total funds applied		<u>\$1,698,631</u>
Decrease in working capital		<u>36,252</u>



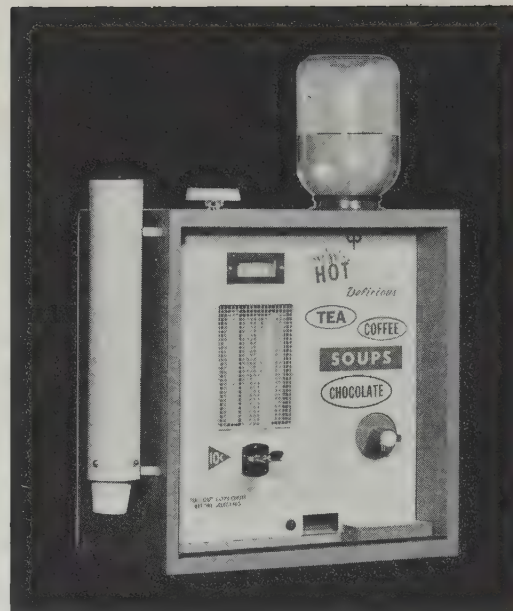
MARKETED IN CANADA

The first application of our patented cylindramatic vending concept outside the coin laundry field. Units carrying Reader's Digest magazines are now being installed in heavy traffic areas across the country.



MARKETED IN U.S.

Superpack 224 has twice the capacity of conventional dispensers of the same external dimensions and vends 112 ten-cent packages each of "all"—a best-selling detergent "Beads-o-Bleach" America's favorite powdered bleach.



MARKETED IN CANADA

The Superpack Snack Bar is a new concept in automatic beverage vending. This low-cost unit serves a variety of 10 different beverages, each freshly made at time of coin insertion, and has a 200-serving capacity.

AUTOMATIC MERCHANDISING

As the automatic merchandising industry continued to grow, Superpack kept pace with new development, new products and new markets.

In the United States, Superpack's wholly owned subsidiary, Scientific Packaging Corporation, added new laundry products of such companies as Lever Brothers, Colgate-Palmolive, Procter and Gamble, Purex, Borax, Staley's and others. The operation of three packaging plants in Elizabeth, N.J., Los Angeles, Calif., and St. Louis, Mo., maintained a two-shift schedule to package product to supply coin laundries in 49 states. Coin-Op Sales Corporation, Scientific's sales arm, continued lining up major distributors in the United States.

In Canada, Superpack, through its own facilities in Toronto, and its wholly owned Canbar Distributors Limited in Montreal, continued as the leading laundry product packager and vending equipment manufacturer in the country, with installations in virtually every major city and most outlying areas.

Superpack Foods Ltd., the company's newest subsidiary, is developing a major marketing program for its Snack Bar—which can vend a wide variety of instant hot beverages, such as coffee and tea in various forms, soups of many flavors, and hot chocolate. This subsidiary is manufacturing equipment for both coin operation and courtesy dispensing.

OUR BUSINESS

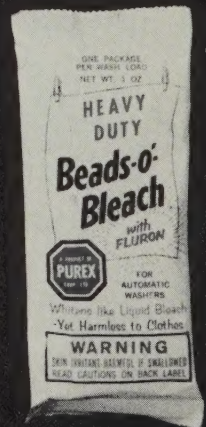
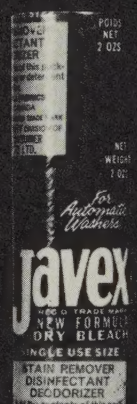
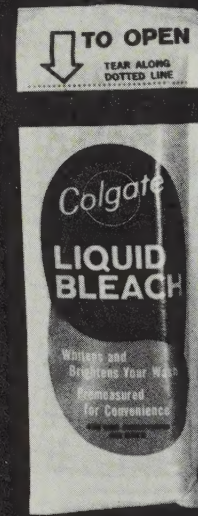
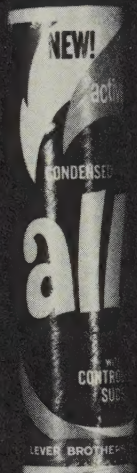
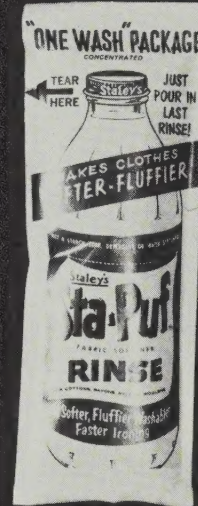
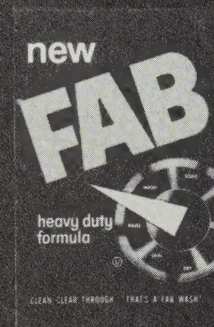
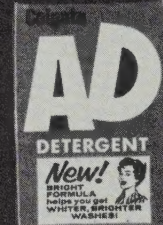
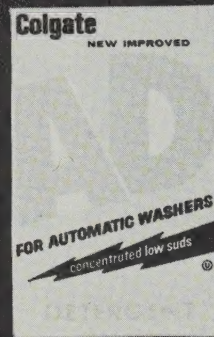
- to manufacture equipment for cylindramatic vending
- to manufacture equipment for in-office vending
- to package, under contract, detergents and other laundry products for Cylindramatic and other conventional forms of vending.
- to package detergents and other products for direct sale via Superpack equipment
- to manufacture housewares; metal, plastic and wood furniture
- to serve the needs of coin laundry operators by providing them with highly-efficient, economical equipment and product
- to serve the automatic merchandising industry by exploring new methods, new products and new markets

FURNITURE & HOUSEHOLD PRODUCTS

Two divisions of your company, Nortex Products Company and Gold Crest Products Company, both of Toronto, showed substantial growth during the year. Nortex continued to supply all major department store and mail order houses in Canada with its complete line of housewares, garden and patio furniture, children and playroom furnishings, plus barbecue braziers, garden swings and hundreds of other items for the home. Nortex is the biggest distributor of its kind in Canada.

The Gold Crest line of furniture showed a continuous month-by-month growth. During the year, this division leased in Toronto a new 55,000-square-foot facility.





Some of the leading brands packaged
and distributed by Superpack
in Canada and the United States



SUPERPACK CORPORATION LIMITED

TORONTO, *Canada* • MONTREAL, *Canada* • LOS ANGELES, *California* • ST. LOUIS, *Missouri*
ELIZABETH, *New Jersey* • LONDON, *England* • NASSAU, *Bahamas*